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John Boehner
Chairman
8th District, Ohio

FY 1998 Budget Resolution

H.Con.Res.___

Committee on the Budget
H.Rept. 105-___
Introduced by Mr. Kasich on May 16, 1997

Floor Situation:

The House is scheduled to consider the FY 1998 budget resolution on Tuesday, May 20, 1997. The Rules Committee is scheduled to meet on the resolution at 5:00 p.m. on Monday, May 19. Chairman Solomon has requested that members who wish to offer substitute amendments should submit 55 copies of their amendment with a brief explanation to the Rules Committee by noon on Monday, May 19. Additional information on the rule and any substitute amendments will be provided in a *FloorPrep* that will be faxed to all Republican offices prior to floor consideration.

Highlights:

H.Con.Res. ___ lays the groundwork for a balanced budget by FY 2002 by proposing cutting taxes for the first time in 16 years, reforming Medicare to prevent it from going bankrupt, producing more than $600 billion in entitlement savings over the next 10 years, and providing funding for domestic priorities including transportation, housing, and education.

The resolution projects steadily declining deficits of $90.4 billion in FY 1998, $89.7 billion in FY 1999, $83 billion in FY 2000, $53.3 billion in FY 2001, and a surplus of $1.3 billion in FY 2002. It forecasts $1.6 trillion in revenues in FY 1998, climbing to $1.89 trillion by FY 2002. For total budget outlays, the measure recommends $1.69 trillion in FY 1998.

More specifically, the resolution calls for:

* gross tax relief of $135 billion and net tax relief of $85 billion over five years—and $250 billion over 10 years—which will accommodate a child tax credit, death

tax relief, capital gains tax relief, expanded IRAs, and tax relief for parents who send their children to college;

* Medicare savings of $115 billion by shifting health care from Part A to Part B and phasing in a premium adjustment over seven years while continuing to protect low-income beneficiaries;

* Medicaid savings of $13.6 billion over five years by increasing state flexibility, repealing the Boren amendment which restricts Medicaid payment levels for hospital and nursing home services, and reforming disproportionate share hospital (DSH) payments;

* additional spending of $30 billion over five years for increased children's health insurance coverage through Medicaid, increased funding for food stamps, grants to states for potential welfare-to-work tax incentives, and reinstated Supplemental Security Income (SSI) and Medicaid for legal immigrants;

* an increase in defense spending for next year of $3.3 billion over the FY 1997 budget resolution level of $264.9 billion; and

* approximately $35 billion in outlays over five years—half of the resolution's total increase in discretionary spending—to renew expiring Section 8 housing contracts.

Background:

In its most simplistic form, the federal budget process consists of four distinct phases: submission of the president's budget, formulation and action on the congressional budget, implementation of the budget, and review of the budget. Each year for the last few decades, Congress must craft a federal budget that balances the social, economic, and security needs of the country with the reality of a massive budget deficit. Efforts to encourage deficit reduction and fiscal responsibility have, in recent years, resulted in a number of significant changes to congressional budget rules and enforcement procedures and debates about constitutional or statutory balanced budget amendments, biennial budgeting, the line-item veto, and disbanding the Appropriations Committees. The 105th Congress has addressed these issues by attempting to pass a constitutional balanced budget amendment and developing a plan with the president to balance the budget by fiscal year 2002.

Overview of the Federal Budget Process

Typically, the arrival of the president's budget on Capitol Hill signals the beginning of the annual budget process in Congress—a process that can last more than eight months and require passage of scores of bills and resolutions. After receiving the **president's budget***, Congress drafts a **budget resolution**—a spending plan that defines in broad terms how much the government will take in through taxes and other receipts, and spend on all government accounts during the coming fiscal

** For a glossary of **bold** terms, see page 23* year. The House and Senate Budget Committees each draft their own version, bring them to their respective chambers for approval, iron out differences in conference, and return the resulting version to their chambers for adoption. Because the president's signature is not required, the resolution does not carry the force of law—although the 1974 Congressional Budget Act forces Congress to abide by the limits it sets for itself. The Appropriations Committees in both chambers use the budget resolution's spending totals to derive 13 separate amounts—one for each Appropriations subcommittee—that are unchangeable and inviolable. The budget resolution can also instruct specific committees to increase revenues or reduce spending in programs not subject to annual appropriations. These changes are achieved through a **reconciliation bill**.

Authorizations vs. Appropriations

Authorization bills set the maximum amount that may be spent for individual discretionary programs, as well as goals for the programs. For entitlement programs, authorization may alter eligibility standards and required benefits. The authorization process usually takes place before the actual appropriation of funds (i.e., a program must be authorized before it can be funded). However, in rare cases the authorizing legislation itself provides the budget authority.

An **appropriations** bill actually funds programs within the limits established by the authorization process. Appropriations usually cover one fiscal year, but may run for a specified or indefinite number of years. Appropriations do not represent actual cash set aside — they represent limitations of amounts that agencies may obligate during the period of time specified in the appropriation act. Also, several types of appropriations are not counted as budget authority. Examples include appropriations to liquidate contract authority (funds furnished to pay obligations incurred against contract authority), appropriations to reduce outstanding debt (funds provided for debt retirement), and appropriations for refunds of receipts.

Throughout the process, Congress passes **authorization bills** which set the maximum amounts that may be spent in specific fiscal years for individual discretionary programs as well as goals for those programs. For entitlement programs, authorization measures set or change benefits and eligibility standards. By using their spending allocations, each of the 13 appropriations subcommittees in each chamber report **appropriations bills**—bills that provide budget authority (also called obligational or spending authority) to programs within the limits set by the authorizations. If all 13 appropriations bills are not enacted before the new fiscal year (October 1), then Congress must pass and the president must sign a continuing resolution to provide temporary funding for government operations and programs to avert a government shutdown; for example, in 1995 the budget impasse between President Clinton and Congress resulted in two partial government shutdowns and 13 continuing resolutions before a budget deal for FY 1996 could be reached. As spending bills are enacted, their funding levels for individual accounts supersede the continuing resolution.

What is the Budget Resolution?

A budget resolution, approved by both chambers but not signed by the president, serves as a blueprint for congressional spending decisions. It sets the total levels for budget authority, outlays, incoming revenues, direct-loan obligations, and loan guarantee commitments, as well as the public debt ceiling for the upcoming fiscal year. While the budget resolution itself does not enact or fund any specific proposals or initiate any new government programs, it assumes that the authorizing and appropriating committees will do so, and sets aggregate numbers to guide their decisions. A vote in favor of the resolution implies acceptance of the assumptions on which the resolution's funding levels are based. Under the 1974 Budget Act, Congress must adopt a budget resolution by April 15; however, since 1975, Congress has rarely met this deadline.

The budget resolution is broken into broad, conceptual "functions," which group common governmental services or benefits. For example, the national defense function includes programs run by the Department of Defense as well as nuclear weapons research at the Department of Energy. Conversely, it is not uncommon for an agency to receive funding from more than one function. Complicating the process, the 13 regular appropriations bills that Congress must act on annually use their own groupings, mixing departments and agencies almost randomly (e.g., commerce, justice, state, and the judiciary or veterans and housing).

Every budget resolution contains two sets of figures: budget authority and outlays. **Budget authority** (BA) refers to the amount of money available for government expenditures. **Outlays** are the amount that a program actually spends during a fiscal year. BA and outlays need not correspond since funds may be authorized in one year but spent in another. Another important distinction in the budget discussion is the difference between discretionary and mandatory spending. **Discretionary spending** is what Congress appropriates each year through the 13 appropriations bills, while **mandatory spending**, under standing authority, automatically occurs year after year. The largest component of mandatory spending comes from entitlement programs such as Social Security and Medicare, which must provide specified benefits to all eligible recipients.

Budget Authority vs. Outlays

Budget authority refers to the amount of funding that a government program may obligate. Congress provides budget authority through appropriations bills. For many budget categories (e.g., salaries and expenses) budget authority roughly equals what is spent for a program in a given year. However, for other categories (e.g., shipbuilding for the Navy) budget authority is held over from year to year to accommodate lags in construction. Budget authority may be classified by the period of availability (one-year, multiple-year or no-year), by the timing of congressional action (current or permanent) or by the manner of determining the amount available (definite or indefinite). The basic forms of budget authority are appropriations, authority to borrow and contract authority.

Outlays are the amount that a program actually spends during the fiscal year. Outlays in a single fiscal year may result from budget authority provided over a range of fiscal years. Outlay totals include net lending (the difference between what the government lends and what borrowers repay). Congress determines outlays indirectly through the amount of budget authority it provides. Outlays during a fiscal year may cover payment of obligations incurred in prior years (prior-year outlays) or in the same year. Total budget outlays are stated net of offsetting collections and exclude outlays of off-budget federal entities. The terms net disbursement and expenditure are frequently used interchangeably with the term outlays.

With adoption of the budget resolution, total budget authority and outlays are allocated among the appropriate House and Senate committees with program jurisdiction; these are called "section 602" allocations. Members may raise points of order to ensure that later congressional spending and revenue bills remain consistent with the section 602 allocations.

In 1985, the Balanced Budget and Emergency Deficit Control Act (*P.L. 99-177*; popularly known as Gramm-Rudman-Hollings [GRH]) amended the 1974 Congressional Budget Act to require the budget resolution to include binding aggregate and functional amounts of new direct-loan obligations and primary loan-guarantee authority. Credit budget levels now must be allocated among the appropriate committees of jurisdiction and legislation which exceeds these amounts is subject to a point of order. In addition, GRH amended the act to allow the House to consider general appropriations bills beginning May 15 for the upcoming fiscal year even if the budget resolution has not been adopted. Furthermore, GRH requires the House to complete action on all regular appropriations bills by June 30 (the House is prohibited from considering an adjournment resolution for more than three calendar days in July if its appropriations bills for the upcoming fiscal year are not completed by this date).

BEA Enforcement Rules for Mandatory and Discretionary Spending

Mandatory Spending (also called "direct spending"). Pay-as-you-go rules apply to mandatory spending. Any legislation that increases mandatory spending or decreases taxes must be fully offset. That is, if an entitlement is increased, then either another entitlement must decrease the same amount or taxes must be raised to pay for it. The offsets are not required in each bill; instead, at the end of the year the total amount that direct spending has changed during the year must balance out. If it does not, then a pay-as-you-go sequester automatically cuts funds from all mandatory programs (except a few which are exempt).

Discretionary Spending (spending handled by Congress through the 13 annual appropriations bills). Up through FY 1993, the three discretionary categories (defense, international and domestic) each had a preset limit. If Congress spent more than the limit in any one of the categories, a "mini-sequester" occurred within that category alone. In addition, Congress could not lift unused funds from one category over the "firewalls" to the others. Unused funds automatically stayed at Treasury and went toward deficit reduction. Under BEA, the firewalls came down in FY 1994, so these considerations no longer apply. Instead of three individual caps, all discretionary spending is now subject to one overall cap. The sequester remains though, and if Congress spends more than the discretionary spending limit, it will cut across-the-board from all but a few exempt discretionary programs.

Debt Limit. The Budget Act required each budget resolution to prescribe a debt limit reflecting the budgetary and economic assumptions of the resolution. Following a 1979 House rules change, if the public debt limit specified in a budget resolution differed from the statutory ceiling, the Clerk of the House automatically prepared a resolution amending the current level. The House vote on the budget resolution applied to the debt limit resolution, releasing the House from a separate vote on the debt ceiling (this was referred to as the Gephardt rule). The Senate did not adopt this rule, and the Senate Finance Committee retains jurisdiction over the proposed debt-level change. The House also could consider debt-limit legislation originating in the Ways and Means Committee. The 104th Congress has since eliminated the Gephardt rule, allowing Congress to deal with the debt limit and the budget as separate issues.

Reconciliation. Reconciliation language directs one or more of the authorizing committees to submit legislation making statutory changes that conform to the budget authority, outlays, and revenue levels outlined in the budget resolution. (The term "reconciliation" is derived from the fact that committees must reconcile their spending desires with Congress' overall goals as detailed in the budget resolution.) Reconciliation language in the budget resolution deals with either total spending or revenue changes, not with specific program reductions or tax measures. In other words, the

Budget Committee's overall numbers are binding, but it is up to individual committees to decide how they will reach their targets. If the reconciliation instructions affect more than one committee, the committees involved may be directed to submit their recommendations to the Budget Committee, which will package them in omnibus legislation for floor consideration. Congress must complete action on a reconciliation bill reported pursuant to instructions in the budget resolution by June 15. Once the final version of an omnibus budget reconciliation bill has been approved by both chambers, it is sent to the president for his signature. Since its inception in 1980, the reconciliation process has evolved into the primary means of controlling entitlement and mandatory program spending.

Under the Budget Act as amended by GRH, it is not in order to use a reconciliation bill to change Social Security or to introduce amendments that would result in a net increase in outlays or a net decrease in revenues. In addition, committees receiving reconciliation instructions may not shift more than 20 percent of deficit reductions between revenue increases and spending cuts.

Entitlements. Entitlement legislation obligates the federal government to pay benefits to anyone meeting stipulated program eligibility requirements. Since many entitlement activities are tied to the price indices, an increase in these indices results in increased federal program funding. In an effort to control entitlement spending, the Budget Act makes any bill containing a new entitlement subject to a point of order unless the entitlement becomes effective no earlier than the fiscal year beginning in the calendar year during which the bill is reported. If any entitlement exceeds the budget authority amount allocated to committees, the bill is referred for 15 days to the Appropriations Committee, which may recommend an amendment to limit total new spending authority. The primary change made by GRH in this area was to take Social Security off-budget, except for the purpose of calculating the maximum deficit. However, the 1990 Omnibus Reconciliation Act removed Social Security from deficit calculations as well.

Off-Budget Activity. Off-budget federal entities (such as Social Security Trust Funds and the U.S. Postal Service) are federally owned and controlled programs whose transactions are excluded from the unified budget. GRH permanently amended the 1974 Budget Act to place all off-budget entities, except Social Security, in the congressional budget resolution.

Historical Framework

The 1985 Gramm-Rudman-Hollings Bill

The congressional budget process was initiated in 1974 under the Congressional Budget and Impoundment Control Act (*P.L. 93-344*) in an effort to impose order, guidance, and discipline on Congress' fiscal matters. However, 10 years of missed deadlines and increasing deficits led Congress to adopt the Balanced Budget and Emergency Deficit Control Act (*P.L. 99-177*; popularly known as Gramm-Rudman-Hollings [GRH]). GRH established steadily declining deficit targets designed to culminate in a balanced budget by FY 1991. The law also created an automatic sequestration mechanism to cancel budgetary resources on an across-the-board basis if the projected deficit (i.e., the amount by which outlays exceed the amount of revenues) in any given year exceeded the target.

However, the Supreme Court invalidated the automatic deficit-reduction procedures in 1986, ruling that the GRH provision violated the Constitution's separation-of-powers principle since it charged a legislative branch agency with the responsibility of controlling the estimates upon which a president's sequestration order was to be based. Faced with this ruling and a projected budget deficit of $183 billion for FY 1988 (far exceeding the $108 billion target), Congress revised GRH in September 1987. The Balanced Budget Reaffirmation Act (*P.L. 100-119*) set revised deficit targets, delaying the date for achieving a balanced budget until FY 1993. The act further modified sequestration to comply with the Supreme Court ruling.

The 1990 Budget Enforcement Act

Prior to 1985, the Budget Act required the budget resolution to indicate the deficit or surplus flowing from targeted outlays and revenues. GRH, however, set a **maximum deficit** amount for each fiscal year between 1988 and 1993 and barred Congress from passing a budget resolution with a deficit over the maximum levels.

Although GRH set a maximum deficit of $64 billion in 1990, out-of-control congressional spending and a slow economy pushed the deficit to more than $300 billion. The threat of a $240 billion sequester pushed Congress to reschedule the deficit reduction. It did so via the Budget Enforcement Act (BEA), which was part of the Omnibus Budget Reconciliation Act (OBRA) of 1990 (*P.L. 101-508*). BEA made four basic changes to the budget process:

* it set caps on three distinct categories of discretionary spending (i.e., funding provided through the annual appropriations process): domestic, defense, and international, and established so-called "firewalls" to prohibit shifting funds between them;

* it set up "pay-as-you-go" procedures requiring that increases in direct spending (i.e., entitlements and other mandatory spending) or decreases in revenues (due to legislative action) be offset so as to have no net effect on the deficit;

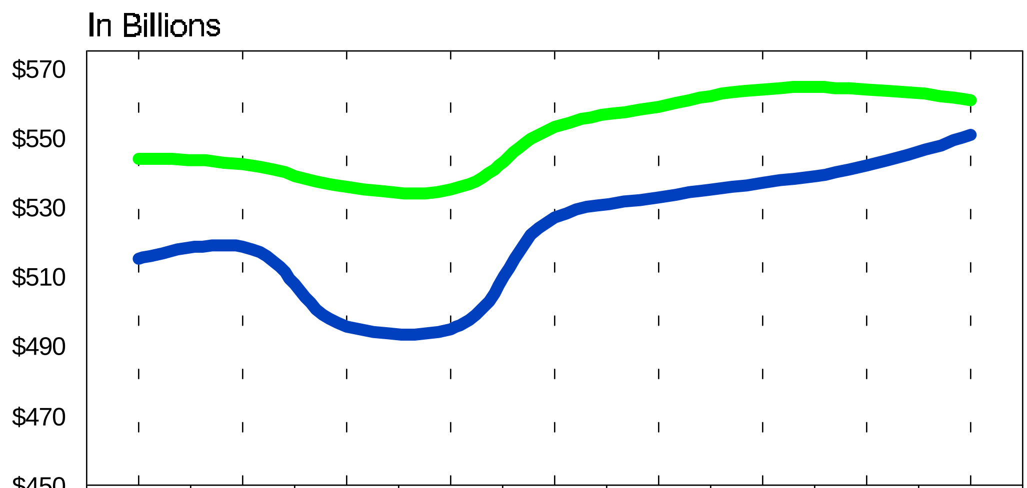
* it revised the GRH deficit targets and extended the sequestration process through FY 1995 (so they are no longer in effect); and

* it expanded the use of the sequester to enforce the discretionary caps and the pay-as-you-go provisions.

Five-Year Discretionary Spending Caps. In FY 1991-93, discretionary spending was divided into three categories—defense, international, and domestic—and BA and outlay caps were set each year for each. BEA also established "firewalls", which prohibited moving money between the three categories in FY 1991-93 (money left in any of the categories at the end of the fiscal year was automatically applied to deficit reduction). In March 1992, less than one and one-half years into BEA, House Democratic leaders attempted to break down the firewalls to allow defense money to be used for domestic spending (H.R. 3732 in the 102nd Congress). Under a veto threat from then President Bush and pressure to maintain the integrity of BEA, the House rejected the bill, 187-238.

Discretionary Spending Caps

FYs 1994-2002 (Assuming Adoption of Budget Resolution)



	1994	1995	1996	1997	1998	1999	2000	2001	2002
Budget Authority	$515	$519	$496	$495	$527	$533	$537	$542	$551
Outlays	$544	$542	$536	$535	$553	$559	$564	$564	$561

Budget Authority Outlays

Source: House Budget Committee

In FY 1994, the individual caps and firewalls expired. Now, only a cap on discretionary spending as a whole applies to congressional spending, and funds can be apportioned freely among the three categories.

Pay-As-You-Go Rules. Pay-as-you-go rules were included in BEA to help curb the runaway growth in entitlement spending. The rules require that legislation increasing direct spending (above levels that would occur under existing law), or legislation decreasing revenues, be offset so the deficit does not increase. In other words, every increase in entitlement spending or any tax reduction must be paid for by increasing revenue or by reducing entitlement spending, or some combination of the two. This requirement applies not to each new law individually, but cumulatively to all laws affecting a fiscal year. The Social Security Retirement and Disability Trust Fund, as well as officially-designated "emergency" spending accounts, are exempt from these rules.

If the Office of Management and Budget (OMB) determines at the end of a session that a pay-as-you-go sequester is necessary to offset a net deficit increase during that fiscal year, the sequester must occur within 15 days after the end of the session and at the same time as the spending-cap and/or deficit-target sequesters (if ordered).

Under BEA, OMB is charged exclusively with scoring legislation to enforce pay-as-you-go rules. However, two months after enactment of BEA, the House Democrats changed House rules to give CBO this authority instead. The Senate has passed no such rule. Although both OMB and CBO have been doing their own pay-as-you-go scorekeeping in recent years, the pay-as-you-go sequester order is solely an instrument of the president.

Sequestration. Sequestration is the backbone of BEA—the tool used to pare the budget down when (1) actual discretionary spending exceeds discretionary spending limits, (2) legislation that affects mandatory spending or revenues is not passed in a deficit-neutral manner, or (3) the deficit exceeds the maximum deficit target. The sequester may be used only after OMB determines it is necessary, and all cuts are made across-the-board.

There are now essentially three types of sequesters. In addition to retaining the sequester used to enforce the GRH maximum-deficit targets, BEA established sequestration procedures to enforce the limits on discretionary spending and the pay-as-you-go requirements. If OMB determines in its final sequestration report that any of the three sequesters are necessary, they must occur simultaneously within 15 calendar days after adjournment of the session. If any of the discretionary caps are broken during a session, a "within-session" sequester can be activated. The deficit-target sequester must be (1) used only after OMB determines that the other two alone are insufficient and (2) made on an across-the-board basis—one-half from defense spending and one-half from non-defense discretionary spending. A number of programs and accounts considered to be of certain significance are exempt from the sequester.

OMB and CBO (acting in an advisory role) must adhere to a strict reporting schedule to provide Congress with estimates on all three sequesters:

Date	Action to be Completed
Five days before president's budget is submitted	CBO sequestration preview
Presentation of president's budget	OMB sequestration preview
August 15	CBO sequestration update
August 20	OMB sequestration update
10 days after end of session	CBO final sequestration report
15 days after end of session	OMB final sequestration report and president's sequester order
30 days after sequester order	GAO compliance report

Extension of GRH and BEA Under the 1993 Omnibus Budget Reconciliation Act (OBRA)

The House passed the 1993 Omnibus Budget Reconciliation Act (OBRA 1993; *P.L. 103-66*) on May 27, 1993, and adopted the conference agreement on the bill on August 5, 1993. OBRA 1993, touted by Democrats as a $496 billion deficit reduction package, consisted of $221 billion in spending cuts and $275 billion in gross tax increases—the largest tax increase in U.S. history. Taxes included a new 4.3 cents-per-gallon tax on gasoline, higher taxes on Social Security benefits, higher individual and corporate income tax rates, and a 10 percent "millionaire" surtax on individuals making over $250,000 annually. The $221 billion in savings claimed by the Democrats was reprogrammed to other spending priorities under the catch-all heading of "investment".

Before the House considered its bill on May 27, it adopted a rule extending and adding to enforcement procedures established by GRH and BEA. Upon adoption of the rule, these changes were automatically incorporated into the text of the bill; no separate vote was taken, no House committee held a mark-up on them, and members were denied an opportunity to amend them on the floor.

Among other changes, these provisions (1) extended the Gramm-Rudman-Hollings deficit targets through FY 1995, discretionary spending limits through FY 1998, and pay-as-you-go rules through FY 2002; (2) extended the sequestration process; (3) established a Deficit Reduction Trust Fund to "guarantee" that revenues raised and savings achieved by the bill are not spent; and (4) established adjustable, annual, direct-spending targets in FY 1994-97 (referred to as entitlement caps) and an enforcement mechanism requiring the president and Congress to deal with violations of the targets (referred to as entitlement review).

Although these provisions passed the House, they were not included in the final conference report because Budget Committee Democrats argued that they would violate Senate rules. In order to mollify conservative Democrats who conditioned support for the House bill on inclusion of these provisions, President Clinton signed two executive orders on August 4, 1993, (1) establishing the adjustable annual entitlement caps and the enforcement mechanism that requires him to submit legislation dealing with any violation of the caps, and (2) establishing the Deficit Reduction Trust Fund. Skeptics of these "safeguards" argue that Congress has not been very faithful to such caps in the past and that the Deficit Reduction Trust Fund, like all other federal trust funds, is nothing more than a bookkeeping entry—a gimmick of only symbolic significance.

As signed by President Clinton, OBRA 1993 extended the cap on discretionary spending through FY 1998, allowed Congress to exceed the cap when the president declares outlays as "emergency" spending, and extended pay-as-you-go rules. When the overall entitlement target (set by the president's executive order) is breached, the president must explain why such legislation is not necessary or advisable or submit legislation to Congress that covers the overage. The House Budget Committee must act on the president's proposal, but may address the overage in any manner it chooses, provided it proposes as least as much deficit reduction. Finally, if the Budget Committee proposes raising the entitlement target rather than offsetting all or part of the overage, the House must approve an increased target before the budget resolution can be considered.

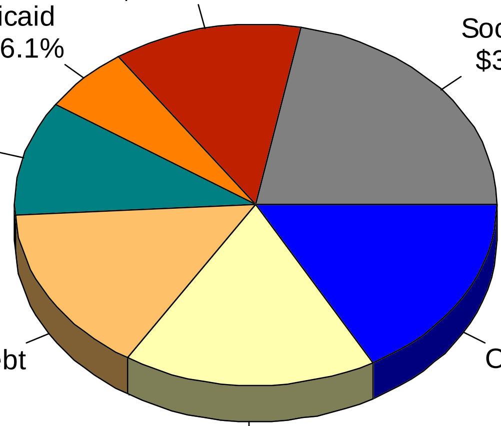
The Budget Battle

When House Republicans won the majority in November 1994, they promised as a corollary to the *Contract with America* that they would balance the federal budget by the year 2002. This set the stage for the ongoing battle for a balanced budget between the Republican Congress and President Clinton over the last three budget cycles.

In May 1995, House Republicans proposed a budget resolution that was significantly different from the president's budget proposal. Not only did the resolution forecast declining deficits that would result in a budget surplus in FY 2002, but it recommended a sweeping downsizing of the federal government, including the elimination of 283 programs, 14 agencies, 68 commissions, and the De-

FY 1997 Federal Spending

(in billions)



Source: Congressional Budget Office

partments of Commerce, Education, and Energy. Furthermore, the FY 1996 budget resolution included reconciliation instructions to reform welfare, cut taxes, and reform Medicare to prevent it from bankruptcy. In contrast, President Clinton's original FY 1996 budget projected continued $200 billion deficits. Only much later in that year did the president embrace the concept of balancing the budget, when he finally offered a balanced budget of his own.

While the budget resolution easily passed the House and Senate, the FY 1996 appropriations season faced an uphill battle. Although the House passed all 13 appropriations bills by September 7, 1995, the president had not signed one appropriations bill by the end of the 1995 fiscal year. The budget wrangling continued for the next seven months and included two government shutdowns and 13 continuing resolutions. In addition, the president vetoed the Republican's plan to shrink government spending, the Balanced Budget Act, in December 1995.

By March 1996, Republican leaders decided to end the FY 1996 appropriations season with an omnibus appropriations bill providing funding for programs in the remaining four unsigned appropriation bills, which included C/J/S/J, Interior, VA/HUD, and Labor/HHS. The president signed the Balanced Budget Downpayment Act II (*P.L. 104-134*) on April 26, 1996, ending a long, contentious appropriations year with this compromise piece of legislation. The bill capped an appropriations process that saved over $20 billion from discretionary spending and eliminated over 200 federal programs.

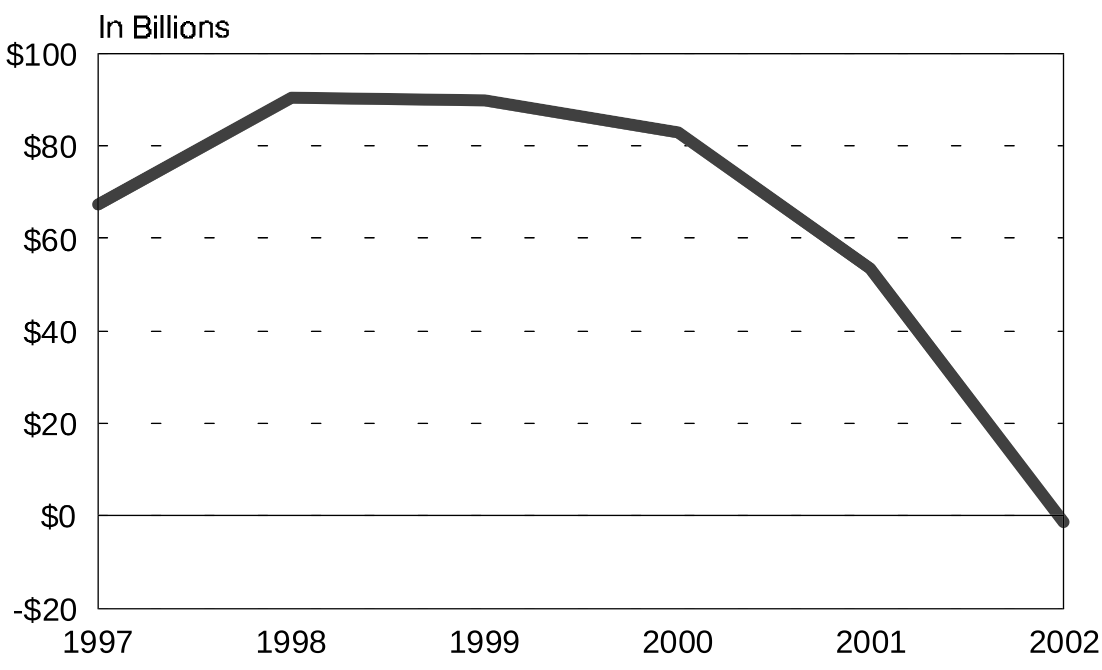
The FY 1997 budget process was rather uneventful compared to the previous year's events. All 13 spending bills were enacted by the start of the new fiscal year—only the fourth time since the modern federal budgeting process began in 1974. With Republicans eager to put the budget battle aside and start campaigning for the November elections, they agreed to President Clinton's demands for an extra $6.5 billion in spending for education, job training, and anti-terrorism initiatives. The Republicans did achieve some success in curbing entitlement spending when the president signed into law a major welfare reform bill which eliminated welfare as an entitlement program and projected budget savings of $54 billion over six years.

The current budget talks again brought both congressional Republican leaders and President Clinton together after an election where both parties pledged to reach a balanced budget agreement. In February, the president unveiled his budget for FY 1998, which contained more spending and less in tax cuts than most Republicans would support—the Congressional Budget Office (CBO) scored the president's budget as producing a $69 billion deficit in FY 2002, rather than the $17 billion surplus Clinton had predicted. Frustrated by the lack of a balanced budget on the president's part, Republicans adopted a resolution asking the president to submit a new budget which would balance the budget by FY 2002.

In April, leaders on both sides of Pennsylvania Avenue entered discussions to reach a bipartisan budget plan. When CBO estimated a total of $45 billion in extra revenues for 1997, it also projected that there would be a reduction in the deficit of $45 billion for each year from 1998 to 2002. The extra revenue provided the bipartisan budget negotiators with enough funding to satisfy demands of both parties. On May 2, congressional Republican Leaders and President Clinton announced they had reached a balanced budget deal, and spent the next two weeks finalizing the details.

Budget Deficits/Surpluses FY 1997-2002

(assuming adoption of the budget resolution)



Source: House Budget Committee

Provisions:

Basis for Action

Since 1974, CBO has made automatic adjustments to the budget baseline to account for a variety of changes in economic factors projected to affect spending levels in coming years—including the inflation rate, unemployment rate, and interest rates; these factors normally result in an increase in the coming year's spending levels. This method was controversial because any action projected to reduce spending below these hypothetical levels would be scored as a cutback, even if spending was still greater than the previous year.

The Budget Committee now uses the actual budget figures from the previous fiscal year as the basis for comparison with the current year. According to House rules passed on the opening day of the 105th Congress, adjustments are no longer permitted; therefore, comparisons are made to current law levels.

Reconciliation Directives

The resolution includes reconciliation instructions to the authorizing committees to report changes in law necessary to achieve the direct spending, revenue, and deficit reduction targets in the budget resolution. This year, the budget resolution calls for two separate reconciliation bills.

Spending Reductions. The resolution instructs committees to submit recommendations to the Budget Committee by June 12, 1997, to reform programs within their jurisdiction to achieve the necessary spending levels assumed in the budget plan to achieve a balanced budget by FY 2002.

Revenues. The resolution instructs the Ways & Means Committee to report legislation to the Budget Committee by June 13, 1997, to provide net tax relief of $85 billion and gross tax relief of $135 billion over the next five years through a child tax credit, death tax relief, expanded Individual Retirement Accounts (IRAs), capital gains tax relief, and relief for families for education costs.

Budget Totals and Functional Breakdowns

National Defense

H.Con.Res. ___ recommends $268.2 billion in BA and $266 billion in outlays for national defense in FY 1998. It recommends that funding increase to $289.1 billion in BA and $272.6 billion in outlays by FY 2002. Funds in this function are provided to develop, maintain, and equip the military forces and to finance defense-related activities of the Department of Energy. The funding includes pay and benefits for military and civilian personnel; research, development, testing, and evaluation of defense projects; procurement of weapons systems; military construction and family housing; and operations and maintenance of the defense establishment.

1998 Budget Resolution Spending by Function
(in billions of dollars)

Budget Function	Budget Authority Outlays	FY 1997 Enacted	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	Avg Yearly % Change
National Defense	BA	$264.9	$268.2	$270.8	$274.8	$281.3	$289.1	1.8%
	O	$266.6	$266.0	$265.8	$268.4	$270.1	$272.6	1.8%
International Affairs	BA	$15.3	$15.9	$14.9	$15.8	$16.1	$16.4	1.4%
	O	$14.5	$14.6	$14.6	$15.0	$14.8	$14.8	1.4%
Science, Space, & Tech.	BA	$16.7	$16.2	$16.2	$15.9	$15.8	$15.6	-1.3%
	O	$17.0	$16.9	$16.5	$16.0	$15.9	$15.7	-1.3%
Energy	BA	$2.6	$3.1	$3.5	$3.2	$2.9	$2.8	1.5%
	O	$1.9	$2.2	$2.4	$2.3	$2.0	$1.9	1.5%
Nat. Resources/Environment	BA	$22.2	$23.9	$23.2	$22.6	$22.2	$22.1	-0.1%
	O	$22.4	$22.4	$22.7	$23.0	$22.7	$22.3	-0.1%
Agriculture	BA	$11.8	$13.1	$12.8	$12.2	$11.0	$10.7	-1.9%
	O	$9.9	$11.9	$11.3	$10.7	$9.5	$9.1	-1.9%
Commerce & Housing Credit	BA	$6.0	$9.3	$10.1	$13.9	$15.5	$16.9	36.3%
	O	($9.6)	$1.8	$3.3	$8.6	$11.6	$12.8	36.3%
Transportation	BA	$43.9	$46.4	$46.6	$47.1	$48.1	$49.2	2.4%
	O	$39.5	$40.4	$41.3	$41.4	$41.3	$41.2	2.4%
Community & Regional Dev.	BA	$10.2	$8.8	$8.5	$7.8	$7.8	$7.8	-4.7%
	O	$12.1	$10.4	$10.9	$11.0	$11.4	$8.4	-4.7%
Education, Training, Employment	BA	$54.2	$60.0	$60.5	$61.7	$63.0	$63.3	3.4%
& Social Services	O	$50.5	$56.1	$59.3	$60.7	$61.9	$62.3	3.4%
Health and Medicaid	BA	$125.3	$137.8	$144.9	$154.0	$163.4	$172.1	7.5%
	O	$127.4	$137.8	$144.9	$153.9	$163.1	$171.1	7.5%
Medicare	BA	$190.8	$201.6	$212.1	$225.5	$239.6	$251.5	6.4%
	O	$191.3	$201.8	$211.5	$225.5	$238.8	$250.8	6.4%
Income Security	BA	$228.8	$239.0	$254.1	$269.6	$275.1	$286.9	5.1%
	O	$237.8	$247.8	$258.1	$268.2	$277.3	$285.2	5.1%
Social Security	BA	$363.2	$380.8	$399.4	$419.4	$440.1	$463.5	5.5%
	O	$366.4	$384.1	$402.8	$422.8	$443.9	$466.8	5.5%
Veterans Benefits & Services	BA	$39.1	$40.5	$41.5	$41.7	$42.1	$42.3	1.6%
	O	$39.4	$41.3	$41.7	$41.9	$42.2	$42.4	1.6%
Administration of Justice	BA	$23.5	$24.8	$25.1	$24.2	$24.4	$24.9	1.2%
	O	$20.7	$22.6	$24.5	$25.2	$25.9	$24.9	1.2%
General Government	BA	$14.0	$14.7	$14.4	$14.0	$13.7	$13.1	-1.3%
	O	$13.9	$14.0	$14.4	$14.7	$14.1	$13.1	-1.3%
Net Interest	BA	$247.6	$248.6	$252.0	$247.7	$241.7	$236.9	-0.9%
	O	$247.6	$248.6	$252.0	$247.7	$241.7	$236.9	-0.9%
Allowances	BA	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	-–
	O	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	-–
Undistrib. Offsetting Receipts	BA	$-47.4	$-48.8	$-44.4	$-46.0	$-50.0	$-64.1	7.0%
	O	$-47.4	$-48.8	$-44.4	$-46.0	$-50.0	$-64.1	7.0%
Total Spending	BA	$1,632.5	$1,702.2	$1,766.4	$1,825.4	$1,874.1	$1,921.4	3.5%
	O	$1,622.1	$1,692.2	$1,753.9	$1,811.1	$1,858.5	$1,889.1	3.5%
Revenues		$1,554.9	$1,601.8	$1,664.2	$1,728.1	$1,805.1	$1,890.4	4.3%
Deficit		$-67.2	$-90.4	$-89.7	$-83.0	$-53.3	$1.3	-–

Source: House Budget Committee

International Affairs

The resolution recommends $15.9 billion in BA and $14.6 billion in outlays for FY 1998. It recommends that funding increase to $16.4 billion in BA and $14.8 billion in outlays by FY 2002. Funding for this function finances the foreign affairs establishment, including embassies and other diplomatic missions abroad, humanitarian assistance, foreign aid, refuge assistance, international security assistance, and U.S. contributions to international institutions (such as the World Bank, Export-Import Bank, etc.). The Department of State, Agency for International Development (AID), United States Information Agency (USIA), Department of Treasury, and the United States Information Agency all receive funds from this function.

General Science, Space, and Technology

H.Con.Res. ___ recommends $16.2 billion in BA and $16.9 billion in outlays for FY 1998. It recommends that funding decrease to $15.6 billion in BA and $15.7 billion in outlays by FY 2002. This function funds the National Science Foundation (NSF), the National Aeronautics and Space Administration (NASA), and other related programs.

Energy

The resolution recommends $3.1 billion in BA and $2.2 billion in outlays for FY 1998 for energy-related activities of the federal government. It recommends that funding decrease to $2.8 billion in BA and $1.9 billion in outlays by FY 2002. This function funds the Department of Energy (DOE), the Nuclear Regulatory Commission (NRC), the Tennessee Valley Authority (TVA), and the Rural Electrification Administration (REA).

Consistent with the budget agreement, the resolution assumes that DOE will be authorized to lease excess storage capacity in the Strategic Petroleum Reserve.

Natural Resources and Environment

H.Con.Res. ___ recommends $23.9 billion in BA and $22.4 billion in outlays for FY 1998. It also recommends that funding decrease to $22.1 billion in BA and $22.3 billion in outlays by FY 2002. This function funds the Departments of Interior and Agriculture, the Army Corps of Engineers, the Environmental Protection Agency (EPA), and the National Oceanic and Atmospheric Administration (NOAA). Programs in this function are designed to develop, manage, and maintain the nation's natural resources and protect public health by ensuring a clean environment.

The budget resolution assumes that $700 million will be available for federal land acquisitions and to finalize priority federal land exchanges, and that Superfund appropriations will be at the president's level if policies can be worked out. It also assumes appropriations of $143 million in FY 1998 to implement the California Bay-Delta Environmental Enhancement and Water Security Act.

Agriculture

The committee recommends $13.1 billion in BA and $11.9 billion in outlays for FY 1998. The resolution recommends that funding decrease to $10.7 billion in BA and $9.1 billion in outlays by FY 2002. This function funds the Department of Agriculture, the Farm Credit Administration, and programs such as federal crop insurance, Farmers Home Administration (FmHA) farm loans, agriculture research programs, and commodity price support programs.

Commerce and Housing Credit

The committee recommends $9.3 billion in BA and $1.8 billion in outlays for FY 1998. The resolution also recommends that funding increase to $16.9 billion in BA and $12.8 billion in outlays by FY 2002. This function funds various programs at the Departments of Housing and Urban Development (HUD), Agriculture, and Commerce, the Resolution Trust Corporation (RTC), the Federal Deposit Insurance Corporation (FDIC), the Postal Service, the Small Business Administration (SBA), the Securities and Exchange Commission (SEC), the Federal Communications Commission (FCC), the Federal Housing Administration (FHA) and the Federal Trade Commission (FTC).

Federal Housing Administration. The budget resolution assumes continuation of current law to provide the FHA with resources to encourage lenders to forbear for periods of up to one year. This improves the targeting and efficiency of HUD's current program and allows FHA homeowners who are experiencing temporary economic distress to stay in their homes. The FHA provides mortgage insurance to people who otherwise may not be able to obtain the financing to purchase a house. When the homeowner defaults on a federally insured mortgage, the FHA must pay the balance on the mortgage to the lender and foreclose on the house. Since the FHA has more flexibility to work with homeowners who are in default on their mortgages, the costs to the FHA insurance fund can be avoided.

Postal Service Transition Payments. The resolution also assumes shifting the cost of financing worker's compensation benefits for pre-1971 postal employees to the Postal Service, thus producing a net savings of $121 million over five years.

Transportation

H.Con.Res.___ recommends $46.4 billion in BA and $40.9 billion in outlays for transportation-related spending in FY 1998. It recommends that funding increase to $49.2 billion in BA and $41.2 billion in outlays for FY 2002. This function funds the Department of Transportation's programs for highway and bridge repair, mass transit, railroad assistance, and airways and airports. It also funds Coast Guard programs.

The budget agreement assumes the permanent extension of vessel tonnage fees in mandatory spending.

Community and Regional Development

The committee recommends $8.8 billion in BA and $10.4 billion in outlays for urban and rural development programs in FY 1998. The resolution also recommends that funding decrease to $7.8 billion in BA and $8.4 billion in outlays by FY 2002. This function funds the Department of Housing and Urban Development (HUD), USDA, the Department of Commerce's Economic Development Administration (EDA), the Bureau of Indian Affairs at the Interior Department, the Small Business Administration (SBA), the Federal Emergency Management Administration (FEMA), the Appalachian Regional Commission (ARC), and the Tennessee Valley Authority (TVA).

Education, Training, Employment, and Social Services

H.Con.Res.___ recommends $60 billion in BA and $56.1 billion in outlays for FY 1998. It also recommends that funding increase to $63.3 billion in BA and $62.3 billion in outlays for FY 2002. This function funds the Departments of Education (DOE), Health and Human Services (HHS), Labor, and Interior, the Corporation for National and Community Service, and a variety of other independent agencies. Programs covered under the function include elementary and secondary education, vocational and higher education, employment and job training, Head Start, and other family services programs and social services.

The budget resolution assumes funding levels sufficient to meet the education priorities of Congress and the president. These priorities include enacting education reform (such as the Technology Literacy Challenge Fund); providing funds for bilingual and immigrant education; increasing Pell Grants (assuming a $300 increase in 1998 with a maximum award of $3,000); and maintaining funding for child literacy initiatives consistent with the goals and concepts of the president's America Reads program, Head Start, and Training and Employment Services (i.e., Job Corps).

The resolution also assumes savings of $1.8 billion in student loans by reducing excess guaranty agency reserves in the guaranteed loan program and reducing administrative costs in the direct loan program. These changes will not affect students or their loans. The agreement expects the volume of student loans to grow from $27 billion in FY 1997 to $36 billion in FY 2002 and the number of loans to increase from 7.5 million to 8.6 million.

Specific education policy assumptions include:

* achieving savings of $603 million in outlays from the administration of the direct loan program, but the resolution does not cap the direct lending program;

* eliminating the $10 per loan subsidy to schools and alternate originators that participate in the direct loan program; and

* recalling $1 billion in reinsurance levels for guaranty agencies.

Health

The committee recommends $137.8 billion in both BA and outlays for FY 1998. The resolution recommends that funding increase to $172.1 billion in BA and $171.7 billion in outlays by FY 2002. The Health function covers the Department of Health and Human Services (HHS), the Department of Agriculture (USDA), and the Office of Personnel Management (OPM). Programs funded under this function include Medicaid, National Institutes of Health (NIH) research, substance abuse and mental health grants, disease prevention and control, and health benefits for federal employees.

The budget resolution assumes Medicaid outlays of $105.3 billion in FY 1998 and $604.7 billion over five years. It guarantees no per-capita cap on federal Medicaid spending, assumes a net savings in Medicaid of $13.6 billion over five years, and reduces disproportionate share hospital payments.

More specifically, the key components of the Medicaid reform assumptions include:

* achieving savings through reducing disproportionate share hospital (DSH) payments. Medicaid DSH payments are additional payment adjustments made to hospitals which serve large volumes of Medicaid and low-income patients;

* increasing state Medicaid flexibility in managing their Medicaid programs, repealing the Boren Amendment (which restricts Medicaid payment levels for hospital and nursing home services), and eliminating unnecessary administrative requirements;

* including $919 million for a higher federal Medicaid match rate for the District of Columbia, $250 million for an inflation adjustment for programs in Puerto Rico and other territories, $1.5 billion to cover increased Medicaid cost under existing law due to the shift of home health care from Part A to Part B of Medicare and due to the maintenance of the Medicare Part B premium at 25 percent, and $1.5 billion to ease the impact of increasing Medicare premiums on low-income beneficiaries; and

* guaranteeing no per-capita cap limits.

The budget agreement assumes that federal financial support for children's health insurance initiatives increases, and that $16 billion will be spent over the next five years to provide health insurance coverage for up to five million additional children.

Medicare

The resolution recommends $201.6 billion in BA and $201.8 billion in outlays for Medicare spending in FY 1998. It also recommends that funding for Medicare increase to $251.5 billion in BA and $250.8 billion in outlays by FY 2002. Medicare programs provide health benefits to approximately 35 million elderly and disabled Americans. Part A of Medicare deals with hospital insurance, while Part B covers physician payments. Medicare programs are administered by the Health Care Financing Administration (HCFA) at the Department of Health and Human Services (HHS).

The budget resolution assumes the following:

* achieving Medicare savings of $115 billion over five years;

* extending solvency of the Part A Trust Fund for at least 10 years through a combination of savings and structural reforms including the home health reallocation;

* reallocating certain home health care spending from Medicare Part A to Part B where the cost will be offset by a Part B premium increase of 25 percent over seven years; and

* expanding health benefits to include additional mammography coverage, colorectal cancer screening, diabetes self-management, and immunizations.

Income Security

The resolution calls for $239 billion in BA and $247.8 billion in outlays for income security programs in FY 1998. It recommends that funding increase to $286.9 billion in BA and $285.2 billion in outlays by FY 2002. This function insures against loss of income resulting from retirement, disability, death, or unemployment of a wage earner and by assisting those who are unable to provide for themselves. Specifically, it includes retirement and disability programs for federal civilian workers and military personnel, railroad employees, and coal miners. It also includes programs for unemployment compensation, food and nutrition assistance, housing and homeless assistance, energy assistance, and child care.

Assisted Housing Contracts. The budget resolution assumes adequate funding for the Section 8 Housing Program, which needs an increase in funding to maintain its current contracts. This will ensure that the federal government can renew almost two million housing contracts in 1998 for tenants who currently receive assistance. It assumes the maintenance of Section 8 assisted housing units at the 1997 level.

Welfare. The budget resolution assumes several modifications to the Personal Responsibility and Work Opportunity Act of 1996 (*P.L. 104-193*). It restores eligibility for Supplemental Security Income (SSI) disability and Medicaid benefits for noncitizens who (1) entered the United States prior to August 23, 1996, or (2) entered after that date but were enrolled in the program by June 1, 1997. Thus, it restores benefits to noncitizens who are now disabled or become disabled in the future.

The resolution assumes the creation of additional workfare positions within the Food Stamp Employment Training Program for adults, subject to new work requirements in the food stamp law enacted last year. It also seeks to permit governors to offer hardship exemptions to 15 percent of individuals in their states who would lose food stamp benefits because of their failure to comply with the work requirements. Total costs of these additional benefits are $1.5 billion over five years.

The resolution also assumes $3 billion in capped mandatory spending through 2001 to the Temporary Assistance to Needy Families block grant, allocated to states through a formula and targeted within a state to areas with poverty and unemployment rates at least 20 percent higher than the state average.

Earned Income Credit. The plan accepts several recommendations by the administration to address the problem of $5 billion in annual overpayments within the Earned Income Credit. These recommendations include (1) reallocating IRS resources to police the credit, (2) creating demonstration projects in four states to examine alternative methods of providing the credit, (3) requiring "due diligence" on the part of taxpayers who claim the credit on their tax return, and (4) increasing the penalties for deliberate fraud. These reforms generate $124 million in savings over the next five years.

Federal Retirement System. The resolution does not assume any delay in the payment of cost-of living adjustments.

Unemployment Insurance. The budget resolution assumes $624 million in trust fund savings over five years by increasing the ceiling on federal administrative trust funds to 0.5 percent of total covered benefits. It also assumes $763 million in savings over five years by conducting more benefit integrity activities within the program aimed at detecting fraudulent unemployment insurance claims and underpayment of unemployment insurance taxes.

Housing. The budget resolution assumes an extension of current law for low income persons who receive affordable rental units from low income project owners. These private project owners contract with the federal government to provide affordable living to low-income tenants and receive federal payments as well as rent from the tenants, which is capped at 30 percent of their income. The resolution assumes a reduction in the annual adjustments for projects whose rents are currently above 120 percent of the fair market rent. Finally, it assumes these reforms should be made permanent in FY 1999.

Social Security

H.Con.Res. ___ recommends a total of $380.8 billion in BA and $384.1 billion in outlays for Social Security in FY 1998. It also recommends that funding increase to $463.5 billion in BA and $466.8 billion in outlays for FY 2002. This function includes Social Security Old-Age Survivors Insurance and Disability Insurance programs. These programs provide monthly cash assistance to more than 42 million beneficiaries and are administered by the Social Security Administration (SSA). The resolution does not assume any proposals to change projected social security spending levels.

Veterans Benefits and Services

The committee recommends $40.5 billion in BA and $41.3 billion in outlays for veterans benefits and services in FY 1998. The resolution recommends that funding increase to $42.3 billion in BA and $42.4 billion in outlays by FY 2002. Most programs in the function are administered by the Department of Veterans Affairs to support former members of the armed services and their survivors and dependents. Approximately half of the outlays in this function are for income security programs: compensation, pensions, and life insurance. About 45 percent of the outlays are targeted to hospital and medical care for veterans. Veterans education, training, rehabilitation, housing, and other benefits account for the remainder.

The budget resolution assumes funding of $116.8 billion in BA and $117.4 billion in outlays over the next five years for the mandatory veteran's programs. It also outlines the following policy assumptions:

* that VA compensation COLAs will be rounded down to the nearest whole dollar;

* that the following provisions of current law, which are set to expire in 1998, will be permanently extended—income verification for pension eligibility, pension limits for persons in Medicaid nursing homes, and the three expiring OBRA provisions governing VA housing loan fees and default procedures;

* that VA Medical Care will be allowed to retain user fees and third party collections to offset the cost of care provided in VA facilities starting October 1, 1997 (which was part of the administration's proposal); and

* that the prohibition on home loan debt collections will be repealed, real estate mortgage investment conduits will be extended, and the fee for non-veterans using VA's vendee loan program will be increased.

Administration of Justice

The committee recommends $24.8 billion in BA and $22.6 billion in outlays for FY 1998. The resolution recommends that funding increase to $24.9 billion in both BA and outlays for FY 2002. This function covers law enforcement and anti-drug abuse programs at the Departments of Justice and Treasury, as well as the federal government's litigative, judicial, and correctional activities. It funds the Federal Bureau of Investigation (FBI), Drug Enforcement Administration (DEA), Immigration and Naturalization Service (INS), the federal prison system, U.S. Customs Service, Legal

Services Corporation, Secret Service, Equal Employment Opportunity Commission (EEOC), and Bureau of Alcohol, Tobacco and Firearms (BATF).

The budget resolution also assumes the president's level for the Violent Crime Reduction Trust Fund, which is $5.5 billion in BA and $3.6 billion in outlays for FY 1998.

General Government

H.Con.Res. ___ recommends $14.7 billion in BA and $14 billion in outlays for FY 1998. It recommends that funding decrease to $13.1 billion in both BA and outlays for FY 2002. This function covers the general overhead costs of the federal government including the activities of the legislative branch, the Executive Office of the President, the Treasury Department (including the Internal Revenue Service), personnel and property management, and general purpose fiscal assistance to states, localities, and U.S. territories.

The resolution assumes $2.1 billion in both mandatory BA and mandatory outlays in FY 1998. It also assumes unspecified asset sales of $540 million in 2002.

Net Interest

The committee recommends $248.6 billion in both BA and outlays for FY 1998. The resolution also assumes that funding will decrease to $236.9 billion in both BA and outlays for FY 2002. This function, which consists entirely of mandatory spending, funds interest payments on the public debt, minus interest income received.

Allowances

The budget resolution includes no assumptions for this function. This function displays the budgetary effects of proposals or assumptions that cannot be easily distributed across other budget functions.

Undistributed Offsetting Receipts

The resolution assumes savings of $48.8 billion in both BA and outlays in FY 1998. It assumes total additional savings of $253.3 billion in both BA and outlays by FY 2002. Undistributed offsetting receipts involve financial transactions that are deducted from budget authority and outlays of the government as a whole. The three major items in this function are (1) the employer's share of employee retirement plans, (2) receipts from the sale of leases on Outer Continental Shelf lands, receipts from annual rental fees, and royalties on oil and gas production from leased federal lands, and (3) charges for the use of assets owned or controlled by the federal government (such as the electromagnetic spectrum).

The budget agreement calls for $26.3 billion in additional receipts through actions involving the electromagnetic spectrum.

It also assumes an increase in federal agency contributions for the Civil Service Retirement System (except for the Postal Service and District of Columbia) of 1.51 percentage points effective October 1, 1997, through September 30, 2002.

Revenues

The resolution anticipates $1.6 trillion in revenues in FY 1998 which will grow by 18 percent to $1.89 trillion by FY 2002, totaling $288 billion over four years as determined by the Bipartisan Budget Agreement. The budget resolution assumes that the cost of the tax relief package will be offset partially with revenues from excise taxes on aviation services, with a 0.5 percentage point increase in federal employee retirement contributions phased in over three years and beginning in FY 1999, and with the revenue portion of the Earned Income Credit compliance reforms.

Committee Action:

The Budget Committee approved H.Con.Res. ___ by a vote of 31-7 on Friday, May 16, 1997.

Other Information:

"The Budget for Fiscal Year 1998," *CRS Issue Brief* IB97024; "Five Reforms in Search of Budget Control: Congress Versus the Federal Budget," *CRS Report* 92-443E; "Congressional Budget Actions in 1997," *CRS Issue Brief* IB97008; "Initial Elation Over Agreement Tempered by Tough Details," *Congressional Quarterly Weekly Report*, May 10, 1997, pp. 1047-1050; "Federal Budget Chronology: Fiscal Year 1998," *CRS Report* 97-199C; "Budget Process Changes Made in the 104th Congress (1995-1996), *CRS Report* 97-44GOV; "Lawmakers React to Package With Grudging Acceptance," *Congressional Quarterly Weekly Report*, May 10, 1997, pp. 1051-1052; "Clinton and the GOP Congress: A Rough Road to Agreement," *Congressional Quarterly Weekly Report*, May 3, 1997, pp. 1002-1004; "Clinton, GOP Congress Strike Historic Budget Agreement," *Congressional Quarterly Weekly Report*, May 3, 1997, pp. 993-997; "Clinton Presses Liberals to Accept A Dose of Fiscal Conservatism," *Congressional Quarterly Weekly Report*, May 3, 1997, pp. 998-999; "GOP Leaders Coax the Restive Right To Overlook Plan's Imperfections," *Congressional Quarterly Weekly Report*, May 3, 1997, pp. 1000-1001; "The Details of the Budget Deal," *The Washington Times*, May 7, 1997, p. A14; "The Art of the Balanced Budget Deal," *The Washington Times*, May 7, 1997, p. A15

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Glossary of Budget Terms

Appropriations. Legislation enacted by Congress that allows federal agencies to spend or obligate money from the Treasury. Thirteen regular appropriation bills are passed by Congress for each fiscal year. If the Congress fails to pass or the president fails to sign all 13 by the beginning of the new fiscal year, Congress must pass a "continuing resolution" providing continued funding for the government or else the government will shut down. Additional budget authority beyond these 13 bills must be provided through supplemental appropriations bills. (See Continuing Resolution and Supplemental Appropriations.)

Authorization Act. Substantive legislation enacted by the Congress to establish or continue the operation of a federal program or agency, either indefinitely or for a specific period of time. It is usually a prerequisite for the program or agency to receive appropriations.

Backdoor Spending. Spending that avoids the normal appropriations process by granting budget authority to a federal agency in advance of an appropriations act. Some examples are entitlement authority, borrowing authority, and authority to forgo the collection of certain offsetting receipts.

Balanced Budget. A budget in which receipts equal or exceed outlays. (See Budget Receipts and Outlays.)

Baseline/Current Services Budget. A benchmark for measuring the budgetary effects of proposed changes in federal revenues or spending with the assumption that current budgetary policies are continued without change. The baseline can be computed for one or more years, for the budget totals or for particular accounts and programs, and for different assumptions about future conditions. Baselines are used to prepare the budget resolution and to estimate deficit reduction in reconciliation bills and other legislation. The Budget Enforcement Act of 1990 prescribes detailed rules for computing the baseline for fiscal years 1991-1997: the baseline for revenues and entitlement spending generally assumes that laws now on the statute books will continue, while projections for discretionary spending are generally based on prior-year appropriations adjusted for inflation. The Office of Management and Budget (OMB) generally terms their measurement the "baseline," while the Congressional Budget Office (CBO) dubs theirs the "current services budget."

Borrowing Authority. Statutory authority that permits federal agencies to incur obligations and to borrow money to make payments.

Budget Authority (BA). Authority provided by federal law to incur financial obligations that will result in spending (outlays). BA may be classified by the period of availability, the timing of congressional action or the manner of determining the amount available. The basic forms of budget authority are appropriations, contract authority, and borrowing authority. (See Contract Authority.)

Budget Enforcement Act of 1990 (BEA; P.L. 101-508). Amended Gramm-Rudman-Hollings Deficit Control Act to provide revised deficit targets for fiscal years 1991-95 and establish discretionary spending limits and a pay-as-you-go (PAYGO) process affecting revenues and direct spending. BEA also applied the Gramm-Rudman-Hollings sequester to the discretionary limits and direct spending. (See Gramm-Rudman-Hollings and Sequester.)

Budget Receipts. Money collected from the public by the federal government, including gifts and contributions. Excluded are amounts received from business-type transactions (such as sales, interest or loan payments), and payments between government accounts.

Budget Resolution. A concurrent resolution enacted by Congress that sets the total levels for budget authority, outlays, revenues, direct-loan obligations, and loan-guarantee commitments, as well as the public debt ceiling for each of the five upcoming fiscal years. The measure, which serves a blueprint for congressional spending decisions, must be passed by both houses of Congress but does not require the signature of the president.

Budget Totals. Totals for budget authority, outlays and receipts. The on-budget and off-budget totals are combined to derive a total for federal activity. (See On-Budget and Off-Budget.)

Continuing Resolution. A joint resolution enacted by Congress that continues appropriations for specific on-going activities when a new fiscal year has begun and Congress has not yet enacted all of the 13 regular appropriation bills for that year.

Contract Authority. Budget authority included in an authorization bill that allows the federal government to enter into contracts or other obligations for future payments from funds not yet appropriated.

Current Services Budget. See Baselines.

Debt Limit/Debt Ceiling. A statutory limit set by Congress on the amount of the public debt. (See Public Debt.)

Deferral of Budget Authority. Any type of executive action that effectively precludes the obligation or expenditure of budget authority. Usually involves temporarily withholding or delaying the obligation or expenditure of budget authority. Budget authority may be deferred for a variety of reasons, but not for policy reasons. Congress must approve the president's proposal to defer budget authority for it to occur.

Deficit. The amount by which outlays exceed government receipts during a single fiscal year.

Direct Spending. See Mandatory Spending.

Discretionary Spending. Spending controlled by the Appropriations Committee and appropriated through the 13 annual appropriations bills. Discretionary spending is often divided into three categories: defense (which funds the military activities of the Department of Defense and the defense-related functions of other agencies), international (which encompasses spending for foreign economic and military aid, the Department of State and international finance programs) and domestic (which includes, among other things, the government's science, transportation, law enforcement, education, health, and housing activities).

Discretionary Spending Caps. Ceilings on budget authority and outlays for discretionary programs as defined by the Budget Enforcement Act of 1990. For FY 1991-93, the caps were divided among the three categories of discretionary spending — defense, international, and domestic. For

FY 1994 and 1995 there is one cap for all discretionary spending. Discretionary spending caps are enforced through congressional rules and sequestration procedures. (See Sequester.)

Emergency Appropriations. A discretionary appropriation deemed as an "emergency" by the president and Congress (e.g., aid for mid-west flood victims and California earthquake victims). Such appropriations are exempt from discretionary spending limits.

Entitlements. Programs that make payments to any person, business, or unit of government that meets eligibility criteria established by law. Entitlements, which are considered one aspect of mandatory spending, constitute a binding obligation on the part of the federal government, and eligible recipients have legal recourse if the obligation is not fulfilled. Congress controls these programs indirectly by defining eligibility and setting the benefit or payment rules, rather than directly through the annual appropriations process. The best-known entitlements are the major benefit programs such as Social Security and Medicare. (See Mandatory Spending.)

Fiscal Year. The federal government's yearly accounting period. Each fiscal year begins on October 1 and ends on September 30 of the following calendar year. The fiscal year is designated by the calendar year in which it ends; for example, fiscal year 1995 begins on October 1, 1994 and ends on September 30, 1995. (From 1844 to 1976, the government's fiscal year began on July 1 and ended the following June 30.)

Gramm-Rudman-Hollings (P.L. 99-177). The commonly used name for the Balanced Budget and Emergency Deficit Control Act of 1985. Originally, the act set steadily-declining maximum deficit targets for Congress to reach each fiscal year and established a procedure to sequester budgetary resources if the projected deficit is above the target. The targets were revised in 1987, 1990, and again in 1993. The 1990 Budget Enforcement Act refocused GRH away from reaching hard targets to controlling federal spending. (See Budget Enforcement Act.)

Humphrey-Hawkins Debate. Debate on the budget resolution in the House may not exceed 10 hours, not including up to four hours of debate (known as Humphrey-Hawkins time) reserved for the discussion of economic goals and policies. Originally included in the so-called Humphrey-Hawkins Act of 1978 (P.L. 95-523; amended by P.L. 97-258) and found in Section 305(a)(2) of the Congressional Budget Act; this debate time is intended to focus on the big-picture of the federal budget, rather than the budget resolution's specific provisions.

Impoundment. Any action or inaction by an officer or employee of the federal government that prevents the obligation or expenditure of congressional budget authority. Impoundment has historically been a presidential tool to circumvent congressional spending intentions. Because the Office of Management and Budget (OMB) has the authority to regulate the rate at which agencies use funds during a fiscal year (in order to prohibit agencies from spending all their money early on in the year and then demanding supplemental funding), the president can direct OMB not to apportion funds he wants to impound. As the direct result of President Nixon's frequent impoundments, Congress enacted the Budget and Impoundment Control Act of 1974—which organized the congressional budget process by establishing the Congressional Budget Office (CBO) and the House and Senate Budget Committees.

Line Item. In congressional budgeting, it usually refers to assumptions about particular programs or accounts made, but not included in, the budget resolution; in appropriations measures, it usually refers to individual accounts or parts of accounts. The line-item veto refers to the ability of the president to veto a specific portion of a bill. Under previous law, the president had to veto an entire measure if there was only a few specific provisions with which he disagreed. Under the recently enacted Line-Item Veto Act (P.L. 104-130 ; which will take effect in 1997), the president may veto any individual spending item in an appropriation bill.

Mandatory Spending. Spending that is not controlled by discretionary appropriations. As defined by the Budget Enforcement Act of 1990, it includes budget authority outlays, entitlement authority, and the Foods Stamps program. The largest element of mandatory spending is the entitlement programs, such as Medicare, Medicaid, and Social Security, that automatically provide benefits to all recipients who qualify. Also called direct spending. (See Entitlement.)

Maximum Deficit Amounts. The maximum deficit level specified in the Gramm-Rudman-Hollings Act, as amended. For fiscal years 1991-95, the maximum deficit amounts are subject to certain adjustments prescribed by the Budget Enforcement Act of 1990. If the deficit for a particular year is estimated to exceed the adjusted maximum deficit amount by more than a specified margin, a sequester is required to eliminate the excess deficit. (See Budget Enforcement Act and Gramm-Rudman-Hollings.)

Obligations. Legally binding agreements that require immediate or future outlays.

Off-Budget. Government transactions that belong on-budget according to budget concepts but by law are required to be excluded from budget calculations. The Budget Enforcement Act of 1990 requires that the revenues and outlays of the two Social Security trust funds be shown as off-budget. The Omnibus Reconciliation Act of 1989 took the Postal Service off-budget.

On-Budget. Transactions of all federal government entities that are included within the budget.

Outlays. The liquidation of a federal obligation, generally by issuing a check, cash, or promissory note. Outlays may be for payment of obligations incurred in previous fiscal years or in the same year. Outlays, therefore, flow in part from unexpended balances of prior-year budget authority and, in part, from budget authority provided for the current year.

Pay-as-You-Go (PAYGO) Process. Established by the Budget Enforcement Act, PAYGO requires that direct spending or revenue-reducing legislation (which ultimately increases the deficit) be offset. If no offset is found, an across-the-board sequester in certain direct spending categories occurs. (See Budget Enforcement Act, Gramm-Rudman-Hollings, Discretionary Spending Caps, and Sequester.)

Public Debt. Amounts borrowed by the Treasury or the Federal Financing Bank from the public or from another fund or account. The total public debt, which is subject to statutory limit, is the cumulative effect of the year-to-year borrowing that results from the government's continued annual deficits. (See Debt Limit/Ceiling.)

Reconciliation. The process by which Congress makes its tax and direct spending legislation conform to the targets established in the budget resolution. The budget resolution may contain reconciliation instructions directing certain congressional committees to achieve savings in tax or spending programs under their jurisdiction. Legislation implementing the reconciliation instructions is usually combined in one comprehensive bill (known as an omnibus budget reconciliation bill). Generally, spending changes in defense and non-defense discretionary programs are determined separately through the appropriations process.

Rescission. Legislation enacted by Congress that cancels the availability of budgetary resources previously provided by law. Rescissions may be adopted to reduce spending or because budget authority is no longer needed. Under the Impoundment Control Act of 1974, the president must submit proposed rescissions to Congress, which must approve the cuts within 45 days for the funds to be saved. If Congress does not approve the cuts, the funds must be made available for obligation. Expedited rescission basically adopts the current law approach but puts it on a fast-track. Enhanced rescission requires that Congress adopt disapproval legislation in order to block the president's proposed cuts.

Revenue. Government income from a variety of sources, including both taxes and user fees. (See Tax and User Fees.)

Sequester. A budget enforcement device used to cancel budgetary resources. Sequestration is triggered if the Office of Management and Budget (OMB) determines that (1) discretionary appropriations breach the discretionary spending caps, (2) direct spending and receipt legislation increases the deficit, or (3) the deficit exceeds, by more than a specified margin, the maximum deficit amount set by law. Failure to meet the maximum deficit amount would trigger spending reductions from non-exempt programs. Under the PAYGO process, changes in direct spending and receipt legislation that increase the deficit would result in rescissions from entitlements not exempted by law. Discretionary spending in excess of the caps would cause cancellation of budget authority across-the-board for all discretionary programs not exempted by law. Once canceled, sequestered funds are no longer available for obligation or expenditure. (See Gramm-Rudman-Hollings, Budget Enforcement Act, Discretionary Spending Caps and Pay-as-You-Go Process.)

Supplemental Appropriations. Budget authority provided in an appropriations act in addition to BA already provided in regular or continuing appropriations bills. Supplemental appropriations are enacted to cover needs deemed too urgent to be postponed until the next year's regular appropriations process. Often, funds appropriated in supplemental bills are designated as "emergency" spending because the president's request for addition funding often is in response to a natural disaster or overseas military action. (See Appropriation Act and Emergency Spending.)

Tax. A payment imposed upon persons or groups for governmental support. The power to impose and collect federal taxes is given to the Congress in Article I, Section 8 of the Constitution. Collections that arise from the sovereign powers of the federal government constitute the bulk of governmental receipts, which are compared with budget outlays to calculate a budget surplus or deficit.

Trust Fund. A fund, designated as a trust fund by law, that is credited with income from earmarked collections and charged with outlays. Collections may come from the public in the form of taxes or user fees, or from intra-government transfers. More than 150 federal government trust funds currently exist—including the Social Security trust fund and the Medicare trust fund. Money from trust funds is not available for general government use.

User Fees. Fees charged to users of goods and services provided by the federal government. User fees generally apply to federal activities that provide special benefits to identifiable recipients above and beyond what is normally available to the public. Congress determines whether revenues resulting from user fees should go into the Treasury or should be available to the agency providing the goods and services. Examples of user fees are admission to national parks, patent application filing fees or nuclear facility licensing fees charged by the Nuclear Regulatory Commission.

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